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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southern California Gas Company (U 904 G) Regarding Year 11 (2004-2005) of Its Gas Cost Incentive Mechanism.

Application 05-06-030
(Filed June 15, 2005)

**SCOPING MEMO AND RULING OF THE ASSIGNED COMMISSIONER
REGARDING THE GAS COST INCENTIVE MECHANISM FOR YEAR 11**

I. Summary

Pursuant to Rules 6(a)(3) and 6.3 of the Commission's Rules of Practice and Procedure,¹ this ruling sets forth the schedule, assigns a presiding hearing officer, and addresses the scope of this proceeding. The scoping memo and ruling determines that no hearings are needed at this juncture, and that a draft decision regarding the Southern California Gas Company (SoCalGas) request for its Year 11 Gas Cost Incentive Mechanism (GCIM) award should be prepared for the Commission's consideration.

II. Background

SoCalGas filed its Year 11 GCIM application on June 15, 2005. Protests were filed by the Office of Ratepayer Advocates, now the Division of Ratepayer

¹ Unless otherwise indicated, all subsequent citations to rules refer to the Rules of Practice and Procedure, which are codified at Chapter 1, Division 1 of Title 20 of the California Code of Regulations, and citations to sections refer to the Public Utilities Code.

Advocates (DRA), on July 20, 2005 and Southern California Edison Company (SCE) on July 21, 2005. In its report filed on November 30, 2005, DRA recommended that SoCalGas be allowed to recover its requested shareholder reward of \$2.5 million. In addition, DRA recommended that two modifications be made to the GCIM.

In a ruling issued on December 6, 2005, the Administrative Law Judge (ALJ) determined that the Year 11 GCIM could be handled in a manner similar, but not identical, to the previous GCIM proceedings. The ALJ indicated that hearings might be needed to resolve DRA's proposals to modify the GCIM and set a prehearing conference for January 10, 2006, to discuss if hearings would be needed and to establish a procedural schedule.

At the January 10 prehearing conference, DRA, SoCalGas and The Utility Reform Network (TURN) informed the ALJ that the parties were close to resolving concerns that DRA had raised in its report. DRA, TURN, and SoCalGas filed a Joint Recommendation on February 17, 2006. The Joint Recommendation recommended changes to the GCIM to "resolve the storage-related concerns expressed in DRA's Report, while providing SoCalGas' core customers with somewhat additional flexibility with respect to storage injections." (Joint Recommendation, p. 2.) The Joint Recommendation contained five recommended changes to the GCIM, which superseded those proposed by DRA in its monitoring report.

SCE and the Southern California Generation Coalition (SCGC) filed separate responses to the Joint Recommendation. In their responses, SCE and SCGC supported adoption of the Joint Recommendation on an interim basis, but requested the opportunity to respond to the question of whether evidentiary hearings would be needed after responses to outstanding data requests were

received. In a March 16, 2006 ruling, the ALJ agreed with SCE and SCGC and gave them until April 3, 2006 to address the need for hearings. If SCE or SCGC recommended hearings, they were to propose a schedule for serving prepared testimony and hearing dates.

In their responses, neither SCE nor SCGC set forth any disputed facts and each concluded that evidentiary hearings are probably not needed. Coral Energy Resources, L.P. (Coral) filed a response and a motion for leave to intervene on April 3, 2006. Coral urged the Commission to address all the issues identified in Decision (D.) 05-10-015 and D.05-10-043 as potential changes to the GCIM, if the Commission entertains the Joint Recommendation.

III. Scope

The scope of this proceeding is limited to three issues:

1. Should SoCalGas be awarded the \$2.5 million it requests in its Year 11 GCIM application?
2. If the GCIM is modified or eliminated in Investigation (I.) 02-11-040, how will SoCalGas' GCIM award request for Year 11 be affected?
3. Should the Joint Recommendation be adopted?

No party contests SoCalGas's calculation of the GCIM award or its operations under the GCIM that existed during Year 11. However, SCE's contention, that the GCIM created perverse incentives, impacts both issues one and two noted above. SCE's contention is being litigated in I.02-11-040. SCE raised the same contention in SoCalGas' Year 7, Year 8, Year 9 and Year 10 GCIM applications. In D.03-08-065, D.03-08-064, D.04-02-060, and D.05-04-003, the Commission found that SoCalGas reasonably managed its gas acquisitions and operations for Year 7, Year 8, Year 9 and, Year 10, respectively, within the context

of the GCIM that existed at the time. The Commission concluded in those three decisions that SoCalGas should be awarded the shareholder awards that it was seeking, subject to refund or adjustment as may be determined in I.02-11-040. Since I.02-11-040 has not been resolved, the Year 11 GCIM application should be approached in the same manner.

In their response to the Joint Recommendation, SCE and SCGC claimed that if the Commission considers adopting the Joint Recommendation, then it should also address excess core storage cost allocation issues raised by the Joint Recommendation. Historically issues of cost allocation of gas facilities jointly used by the core and non-core customers have been addressed in Biennial Cost Allocation Proceedings (BCAP). SCE and SCGC may raise these issues in the next BCAP or other appropriate proceeding. The cost allocation issue raised by SCE and SCGC is beyond the scope of this proceeding.

IV. Outstanding Procedural Matters

Coral's motion to intervene is granted to the extent that Coral wishes to address any of the issues identified within the scope this proceeding. The issues and recommendations that Coral raises in its response are beyond the scope of this proceeding. Traditionally, the annual review of SoCalGas's performance as required by the GCIM focuses on historical performance. The GCIM annual reviews have not been a forum to consider sweeping prospective changes to the GCIM.

V. Proceeding Category and Need for Hearings

This application was preliminarily categorized in Resolution ALJ 176-3155 on June 30, 2005, as ratesetting with no hearings necessary. Today's ruling confirms that categorization. This categorization, only as to category, is appealable pursuant to Rule 6.4.

Although SCE and SCGC seek to retain the right to request hearings following receipt of additional data responses, no party has identified any disputed facts that relate to issues within the scope of this proceeding. Therefore, no evidentiary hearings are needed in this GCIM application. If a decision in I.02-11-040 determines that the GCIM that SoCalGas was operating under in Year 11 should be modified or eliminated, hearings may be needed, and we will entertain a motion to reopen the record at that time.

VI. Principal Hearing Officer

ALJ Jonathan D. Lakritz will be the principal hearing officer for this proceeding.

VII. Schedule

Currently, the record contains the application, protests, a monitoring report by DRA, two sets of responses to rulings and the Joint Recommendation. No party has raised any material issues of fact regarding the issues defined in Section III, therefore a draft decision can be issued on the record that is before the Commission. After consulting with the assigned ALJ, I anticipate that a draft decision will be prepared and issued no later than 90 days following issuance of this scoping memo. In any event, it is expected that this proceeding will be completed within 18 months from the issuance of this scoping memo pursuant to Public Utilities Code Section 1701.5.

VIII. Ex Parte Rules

Parties shall comply with the rules governing ex parte communications set forth in Rules 7(e).

IT IS RULED that:

1. The scope of the proceeding is as set forth herein.
2. The schedule for this proceeding is as set forth herein.

3. The principal hearing officer will be Administrative Law Judge Lakritz.
4. This ruling confirms that this proceeding is a ratesetting matter.
5. This ruling, only as to category, is appealable under Rule 6.4.
6. Ex parte communications are not restricted as set forth in Rule 7(e) of the Commission's Rules of Practice and Procedure.
7. Coral Energy Resources, L.P.'s (Coral) motion to intervene is granted to the extent that Coral wishes to address any of the issues identified within the scope of this proceeding. The Commission's Process Office should add Coral's name to the service list as an interested party as follows:

John W. Leslie
Luce, Forward, Hamilton & Scripps LLP
11988 El Camino Real, Suite 200
San Diego, CA 92130
Tel: (858)720-6352
Fax: (858) 523-4320
E-Mail: jleslie@luce.com

Marcie Milner
Director of Regulatory Affairs
Coral Energy Resources, L.P.
4445 Eastgate Mall, Suite 100
San Diego, CA 92121
Tel: (858) 526-2103
Fax: (858) 320-1550
E-Mail: mmilner@coral-energy.com

Dated June 26, 2006, at San Francisco, California.

/s/ JOHN A. BOHN

John A. Bohn
Assigned Commissioner

INFORMATION REGARDING SERVICE

I have provided notification of filing to the electronic mail addresses on the attached service list.

Upon confirmation of this document's acceptance for filing, I will cause a copy of the filed document to be served upon the service list to this proceeding by U.S. mail. The service list I will use to serve the copy of the filed document is current as of today's date.

Dated June 26, 2006, at San Francisco, California.

/s/ FANNIE SID

Fannie Sid

***** APPEARANCES *****

Laura J. Tudisco
Attorney At Law
CALIFORNIA PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO CA 94102
(415) 703-2164
ljt@cpuc.ca.gov
For: Division of Ratepayer Advocates

Marcie Milner
CORAL ENERGY RESOURCES, LP
4445 EASTGATE MALL, STE. 100
SAN DIEGO CA 92121
(858) 526-2103
mmilner@coral-energy.com

Norman A. Pedersen
Attorney At Law
HANNA AND MORTON, LLP
444 SOUTH FLOWER STREET
LOS ANGELES CA 90071
(213) 430-2510
npedersen@hanmor.com
For: Southern California Generation Coalition

John W. Leslie
Attorney At Law
LUCE, FORWARD, HAMILTON & SCRIPPS, LLP
11988 EL CAMINO REAL, SUITE 200
SAN DIEGO CA 92130
(858) 720-6352
jleslie@luce.com
For: Coral Energy Resources, L.P.

Gloria Ing
Attorney At Law
SOUTHERN CALIFORNIA EDISON COMPANY
2244 WALNUT GROVE AVENUE
ROSEMEAD CA 91770
(626) 302-1999
gloria.ing@sce.com
For: Southern California Edison Company

Michael R. Thorp
SOUTHERN CALIFORNIA GAS COMPANY
555 WEST FIFTH STREET
LOS ANGELES CA 90012
(213) 244-2981
mthorp@sempra.com
For: Southern California Gas Company

Marcel Hawiger
Attorney At Law
THE UTILITY REFORM NETWORK
711 VAN NESS AVENUE, SUITE 350
SAN FRANCISCO CA 94102
(415) 929-8876
marcel@turn.org

***** STATE EMPLOYEE *****

Jonathan Lakritz
Administrative Law Judge Division
RM. 5020
505 VAN NESS AVE
San Francisco CA 94102
(415) 703-5235
jol@cpuc.ca.gov

Ramesh Ramchandani
Division of Ratepayer Advocates
RM. 4102
505 VAN NESS AVE
San Francisco CA 94102
(415) 703-2765
rxr@cpuc.ca.gov
For: DRA

Pearlie Sabino
Division of Ratepayer Advocates
RM. 4209
505 VAN NESS AVE
San Francisco CA 94102
(415) 703-1883
pzs@cpuc.ca.gov
For: DRA

***** INFORMATION ONLY *****

Elizabeth Westby
ALCANTAR & KAHL, LLP
1300 SW FIFTH AVENUE, SUITE 1750
PORTLAND OR 97201
(503) 402-8709
egw@a-klaw.com

Central Files
SEMPRA ENERGY UTILITIES
555 W. FIFTH STREET, GT14D6
LOS ANGELES CA 90013-1011
centralfiles@semprautilities.com

Bruce Foster
Vice President
SOUTHERN CALIFORNIA EDISON COMPANY
601 VAN NESS AVENUE, STE. 2040
SAN FRANCISCO CA 94102
(415) 775-1856
bruce.foster@sce.com

Case Administration
SOUTHERN CALIFORNIA EDISON COMPANY
2244 WALNUT GROVE AVENUE, ROOM 321
ROSEMEAD CA 91770
(626) 302-1711
case.admin@sce.com

Gregory Healy
SOUTHERN CALIFORNIA GAS COMPANY
555 WEST FIFTH STREET
LOS ANGELES CA 90012
(213) 244-3314
ghealy@semprautilities.com